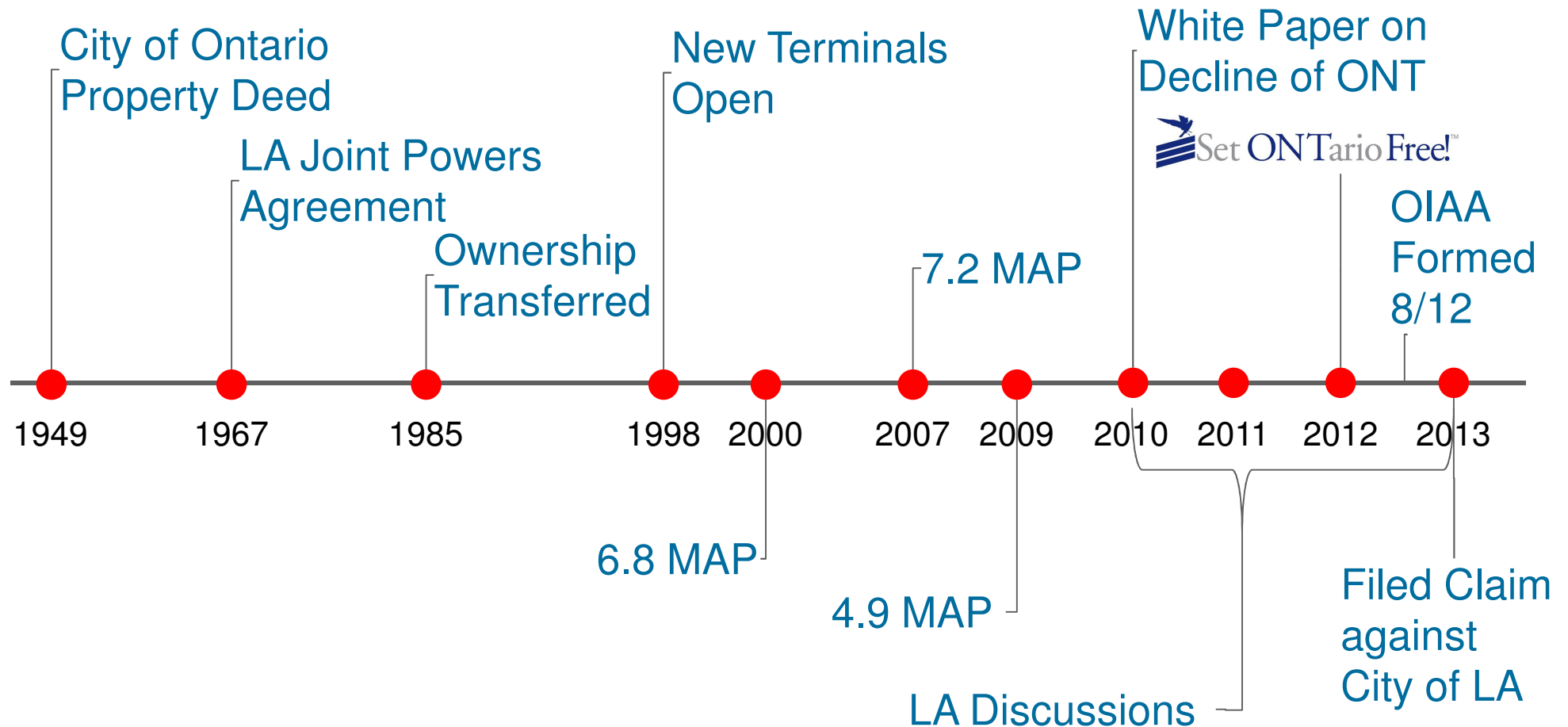


Ontario International Airport Decline San Bernardino County Board of Supervisors Workshop

August 27, 2013



Ontario International Airport Background and History



Set ONTario Free! Campaign
Launched in 2012 to Return Ontario Airport to Local Control

130+ Formal Endorsements

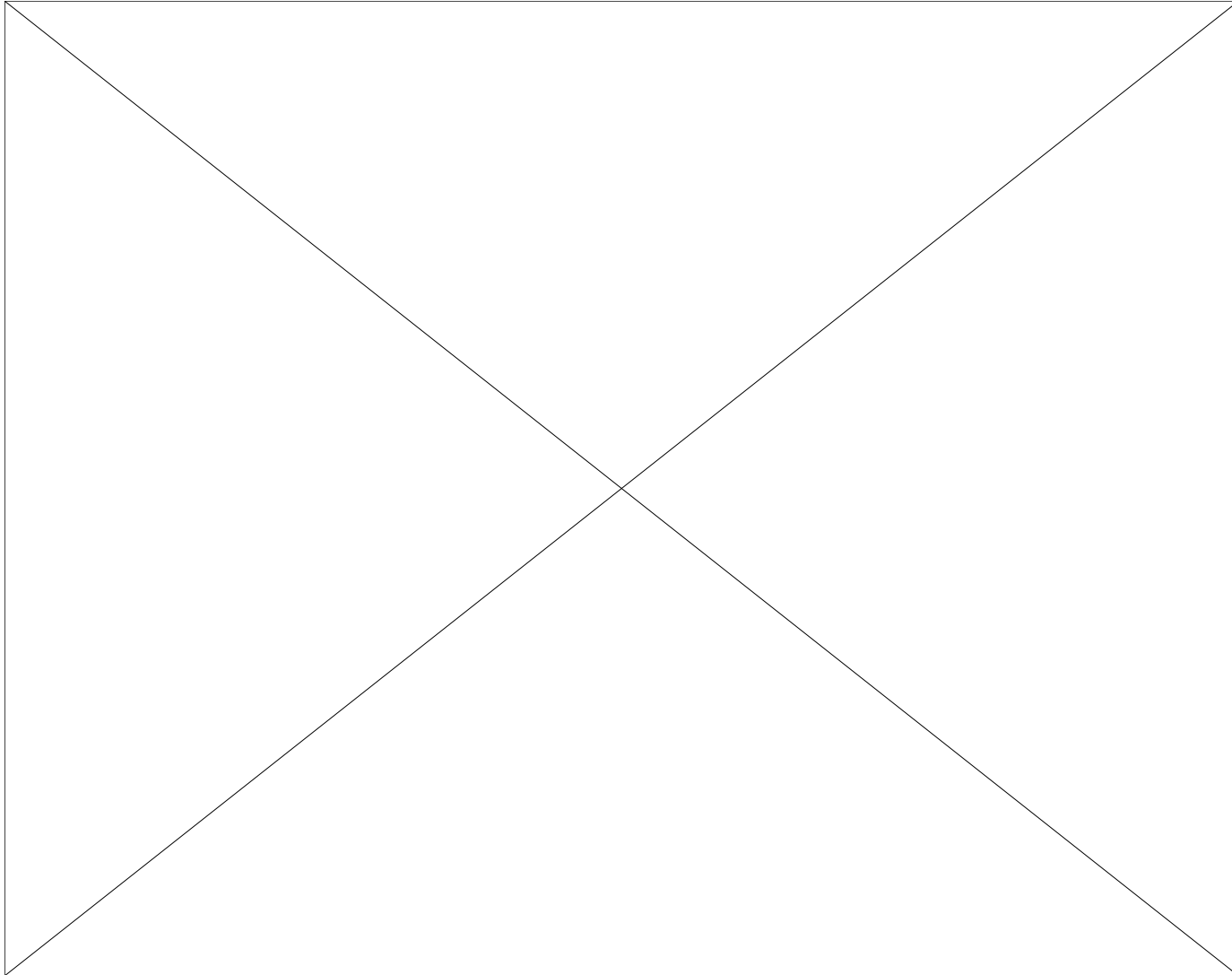


Ontario International Airport Authority Adopted Business Plan Approach

1. Manage airport as a separate enterprise
2. Develop a specialized airport work force
3. Manage procurement process using private sector methods
4. Plan for the highest and best use of all airport property
5. Respond nimbly to market opportunities

ONT Video Tour

Summer of 2013 Video shows the continued decline of conditions at ONT

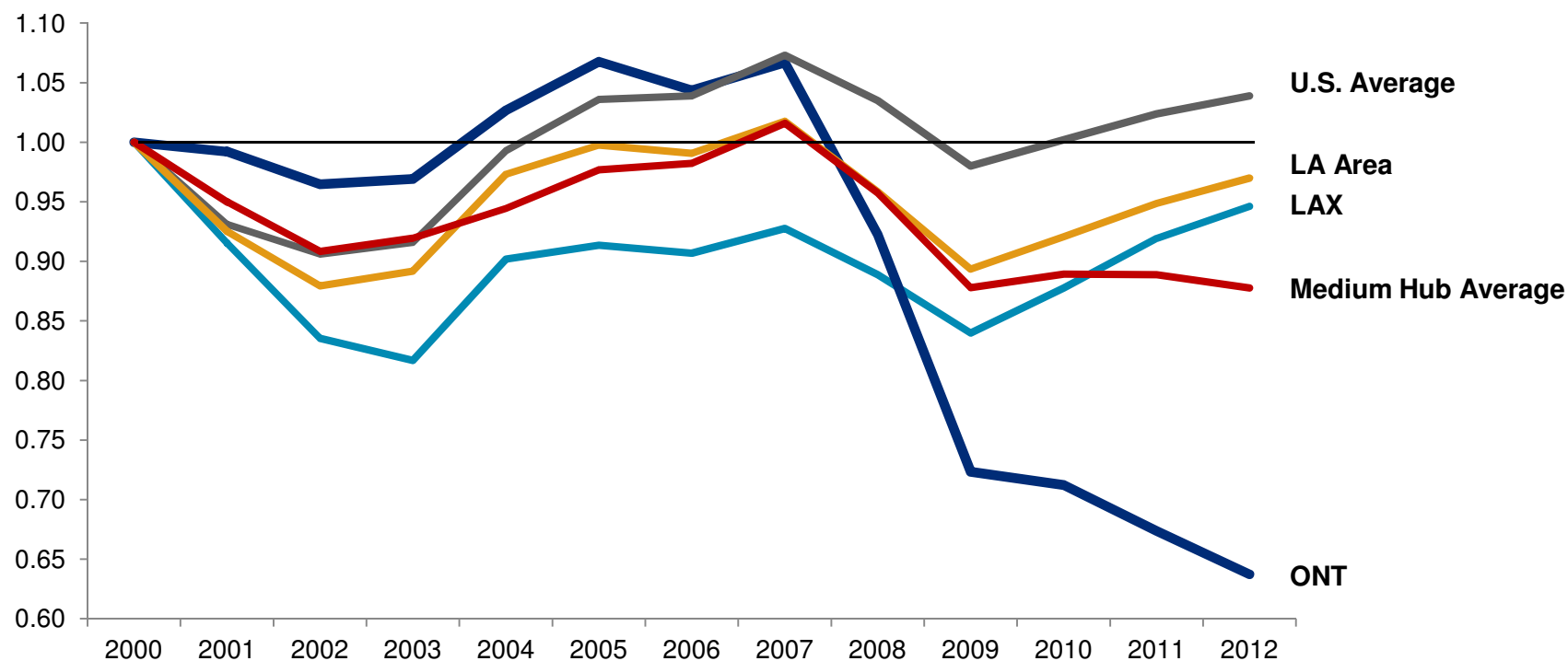


ONT in Perspective

Medium Hub Average performance does not explain ONT's performance

2000-2012 Passenger Growth Comparison

Indexed to 2000=1.00

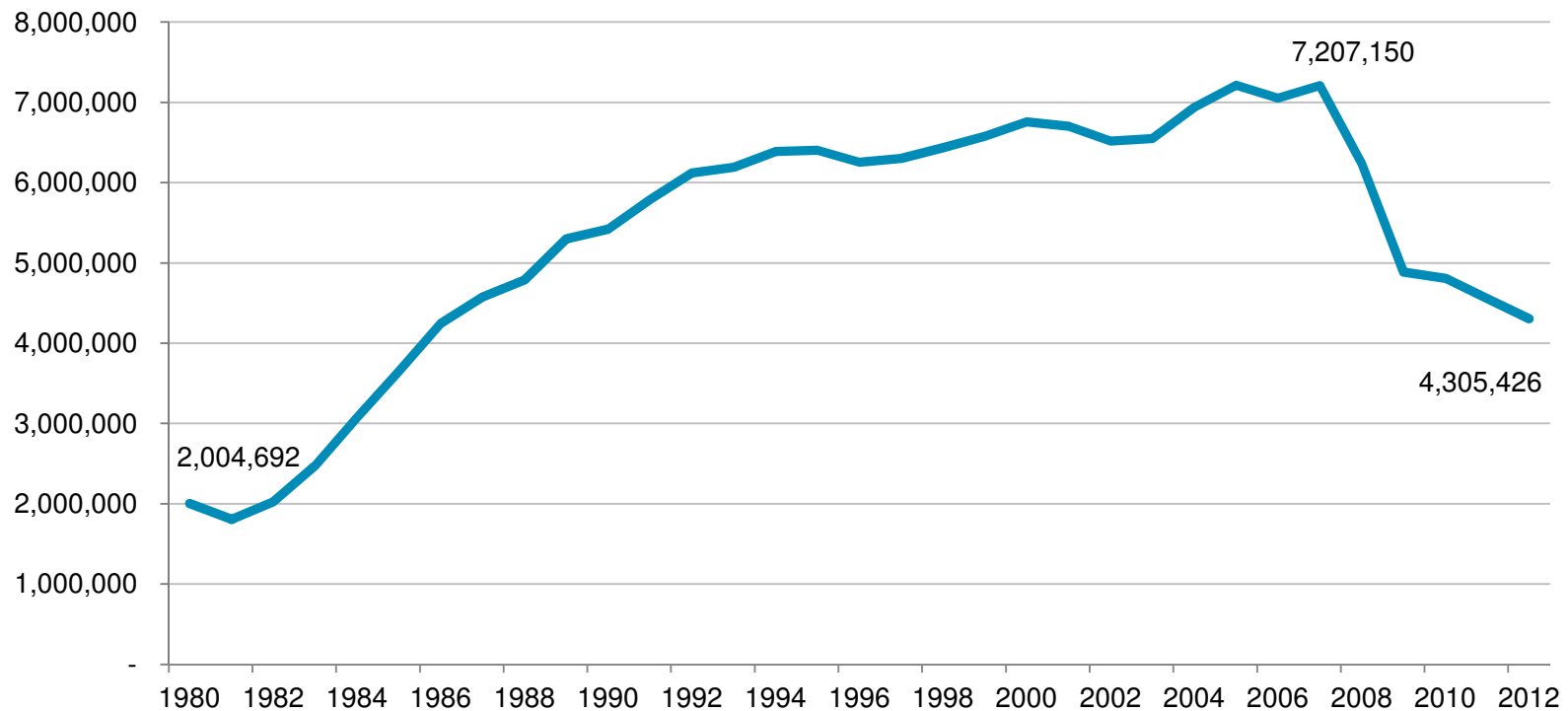


This presentation accompanies the written report of the same date, and is not a stand-alone document.
Sources: Oliver Wyman analysis of DOT data

ONT – A Growth Airport Throughout Much of Its History Until Recently

2013 passengers same level as mid-1980s when Los Angeles acquired ONT

Annual Passengers at ONT (Millions)
1980-2013(E)



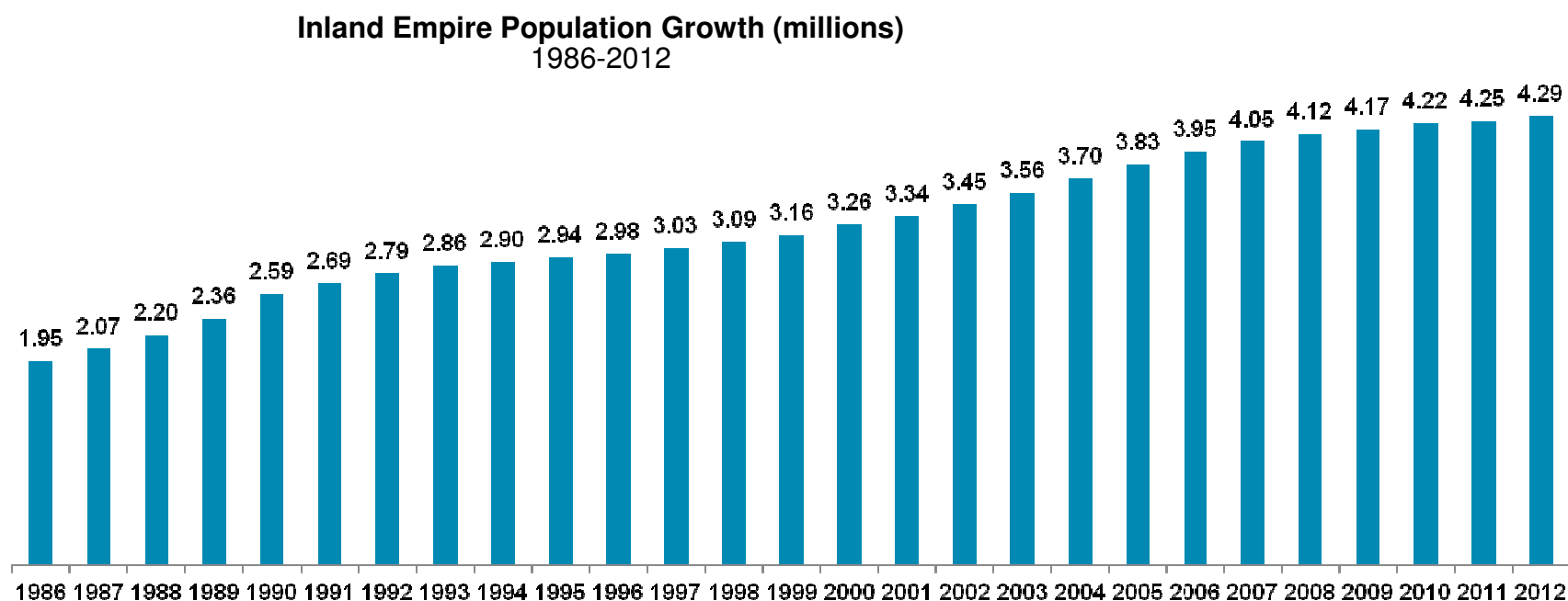
Source: LAWA

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Inland Empire Population Continues to Grow

Riverside and San Bernardino Counties population growth continues despite economic recession



Source: John E. Husing, Ph.D., Inland Empire Quarterly Economic Report, January 2013

Inland Empire Employment..."Solid Strong Job Growth" John E. Husing, Ph.D.
 Cautious optimism in employment turn around in 2011 and 2012.
 Employment is up 1.6% for all of 2012 and unemployment is falling.

Inland Empire Employment Information
 2011-2012 (through November 2012)

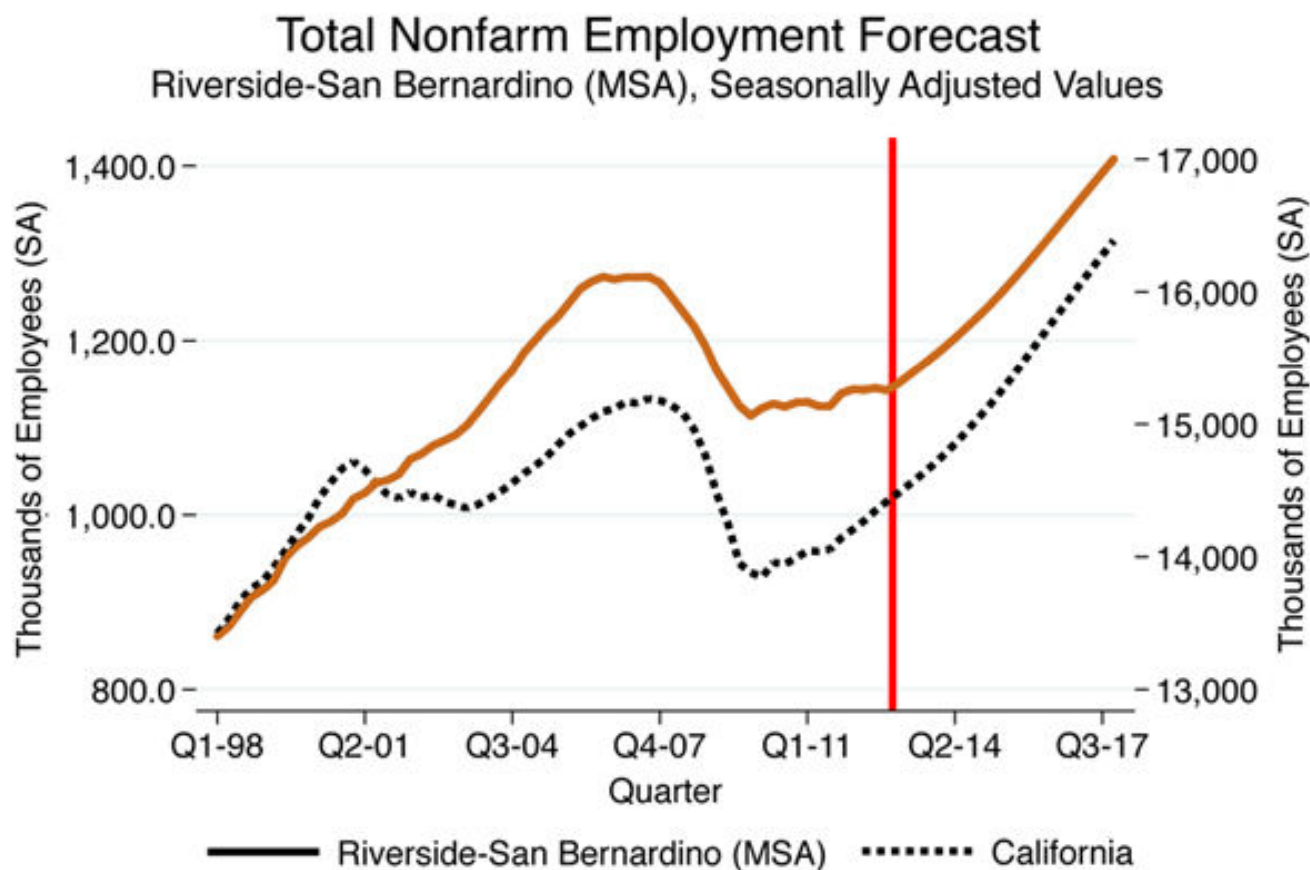
SECTOR	OCT-12	NOV-12	DEC-12	DEC-11	CHANGE 11-12	PERCENT
Total, All Industries	1,160,400	1,176,600	1,181,500	1,168,900	12,600	1.1%
Civilian Labor Force	1,796,300	1,806,600	1,816,600	1,814,600	2,000	0.1%
Employment	1,586,900	1,602,600	1,617,800	1,593,500	24,300	1.5%
Unemployment	209,400	204,000	198,800	221,100	(22,300)	-10.1%
Unemployment Rate	11.7%	11.3%	10.9%	12.2%	(1,500)	-3.9%

Source: John E. Husing, Ph.D., Inland Empire Quarterly Economic Report, January 2013

Inland Empire Employment Growth Accelerating

“[E]mployment has increased to 1.6%, which is on par with LA County, and only slightly below the state average...” Beacon Economics

Inland Empire Employment Information 2011-2012



Forecasts by Beacon Economics

Source: Beacon Economics

Inland Empire Employment Growth Accelerating

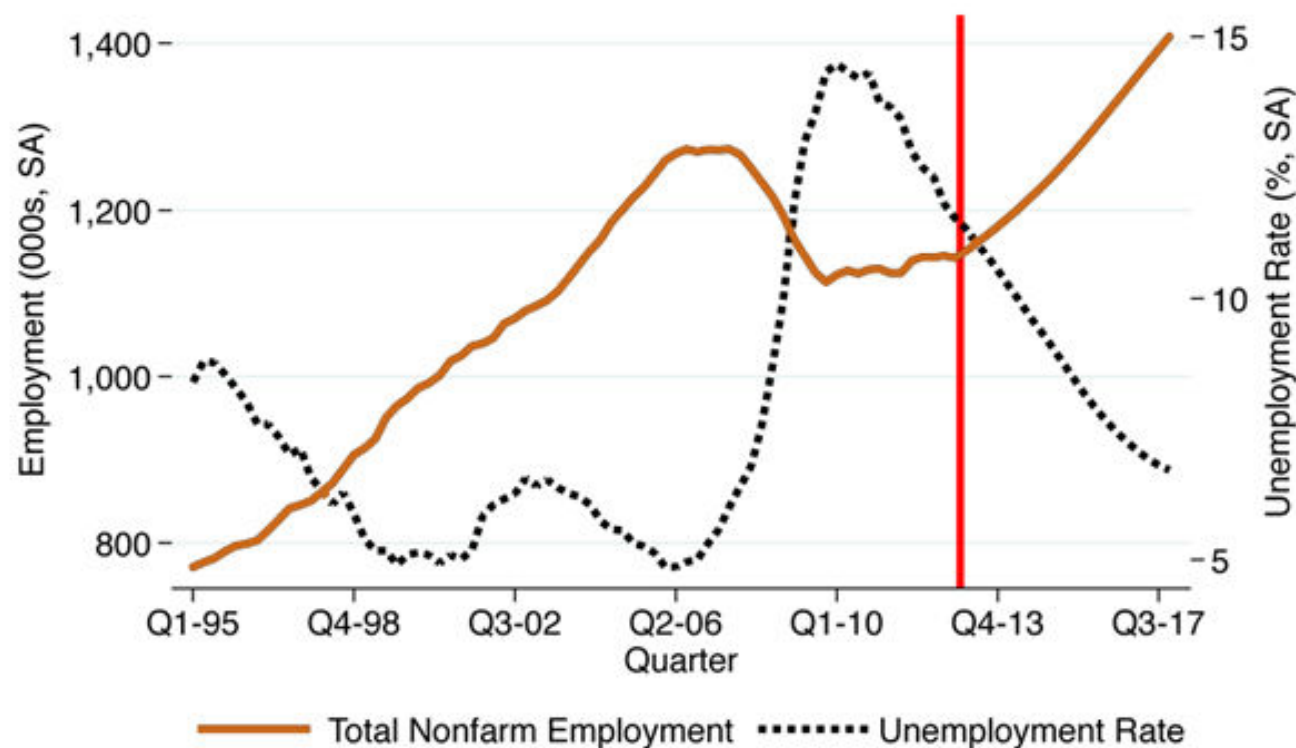
“[E]mployment has increased to 1.6%, which is on par with LA County, and only slightly below the state average...” Beacon Economics

Inland Empire Employment Information

2011-2012

Labor Market Forecast

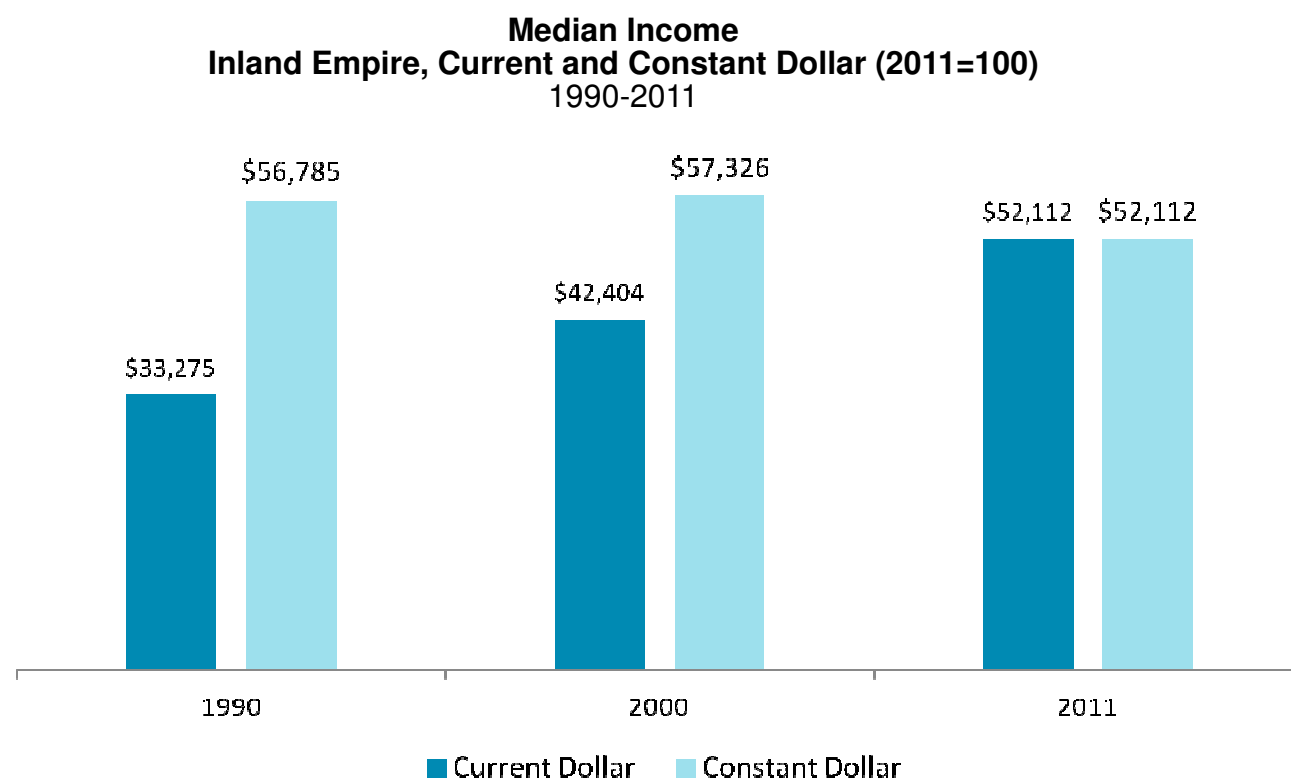
Riverside-San Bernardino (MSA), Q1-95 - Q4-17



Forecasts by Beacon Economics

Source: Beacon Economics

Inland Empire Income Levels

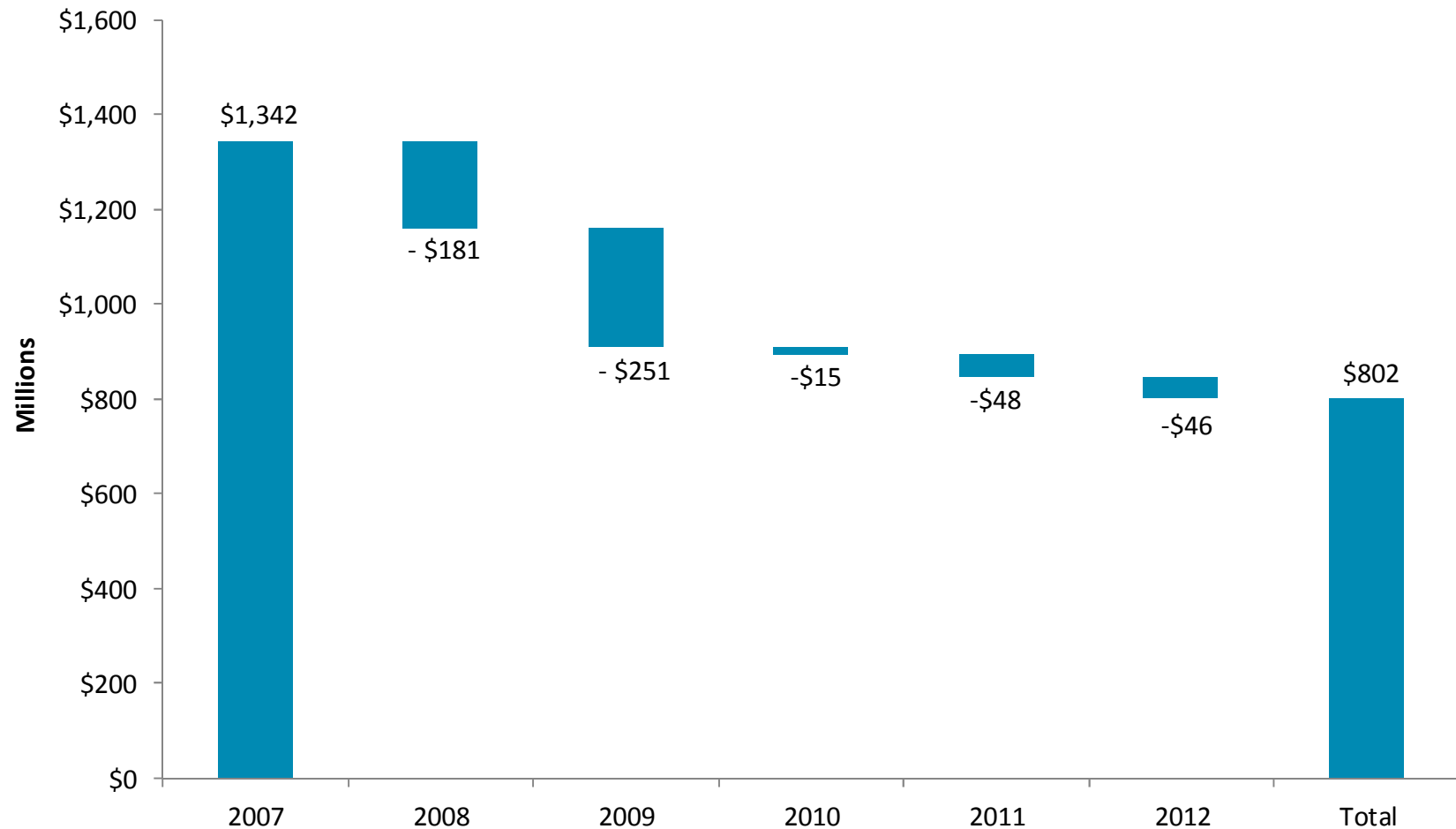


Sources: John E. Husing, Ph.D., Inland Empire Quarterly Economic Report, January 2013; 1990-2000 Census, 2011 American Community Survey L.A. Anaheim
Riverside Consumer Price Index

Total Economic Impact of ONT Was \$1.342 Billion in 2007

Total Economic Impact Loss of \$540 Million Since 2007

Total Job Loss of 10,100 Jobs Versus 2007



In 2011 US\$

Source: Oliver Wyman Analysis

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ONT's Recent Performance Is of Great Concern

Actual 2013 loss through June is over 8 percent

Year	Passengers	Change from Prior Year
2010	4,808,241	-1.6%
2011	4,551,875	-5.3%
2012	4,305,426	-5.4%

	2012	2013	Change
January	332,936	302,342	-9.2%
February	320,012	293,536	-8.3%
March	369,726	349,595	-5.4%
April	362,708	332,143	-8.4%
May	373,975	339,082	-9.3%
June	373,652	341,967	-8.5%
Jan-June	2,133,009	1,958,665	-8.2%

Source: LAWA

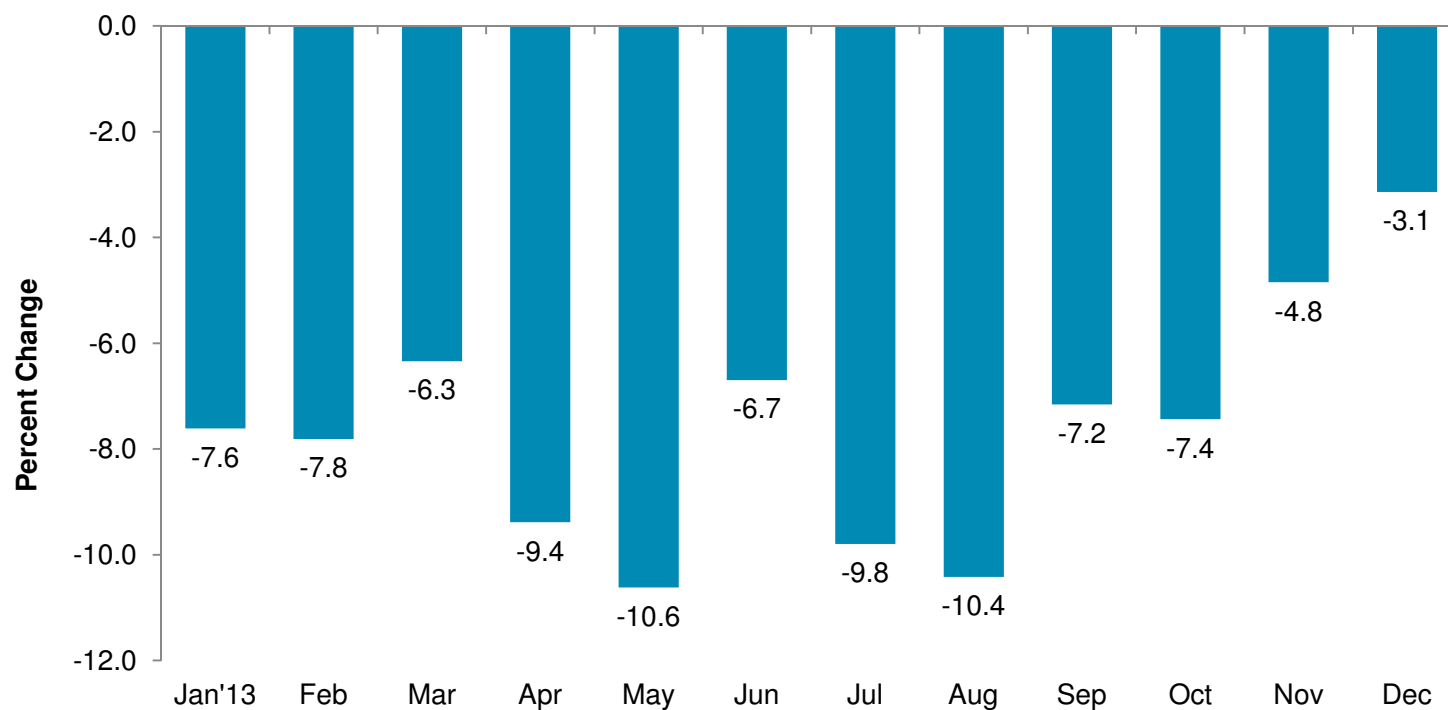
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Remainder of 2013 and Into 2014 Shows No Improvement

ONT Scheduled Seats Compared to Prior Year Same Month

January – December 2013



% change											Jan	Feb
Southwest	-0.6	-2.4	-4.6	-2.4	-3.0	-5.3	-4.2	-5.2	-4.0	-2.0	-9.2	-11.0

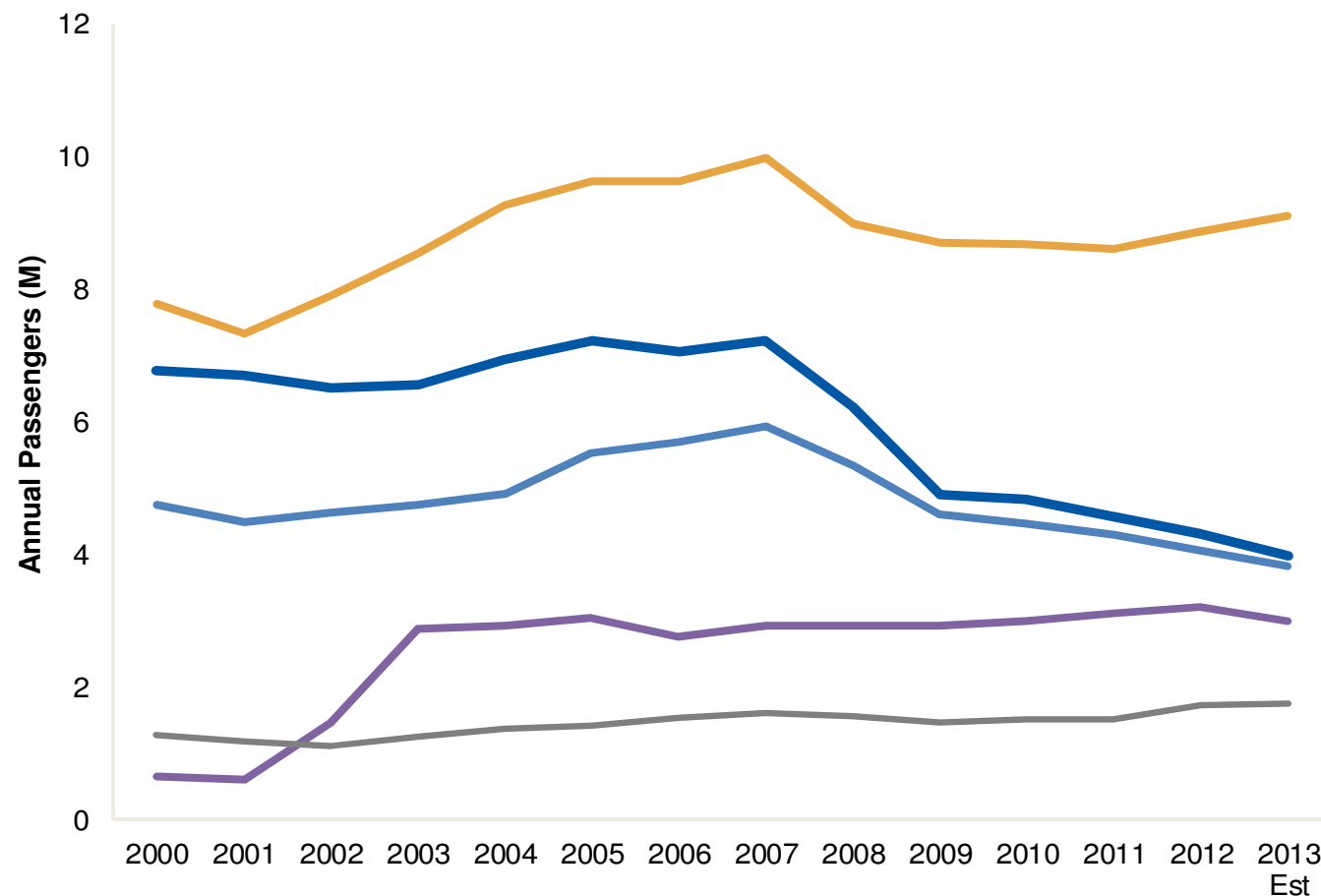
Source: Planestats.com, based on Innovata Flight Schedules as of July 26, 2013

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ONT Versus Competing Airports in the Region

Passengers at Southern California Regional Airports (Millions)
2000-2013 (est)



	Change	
	2000-2013	2012-2013
John Wayne	17.1%	2.8%
Ontario	-41.1%	-7.6%
Burbank	-19.8%	-6.1%
Long Beach	369.8%	-6.5%
Palm Springs	36.0%	0.9%
LAX	-1.3%	4.3%

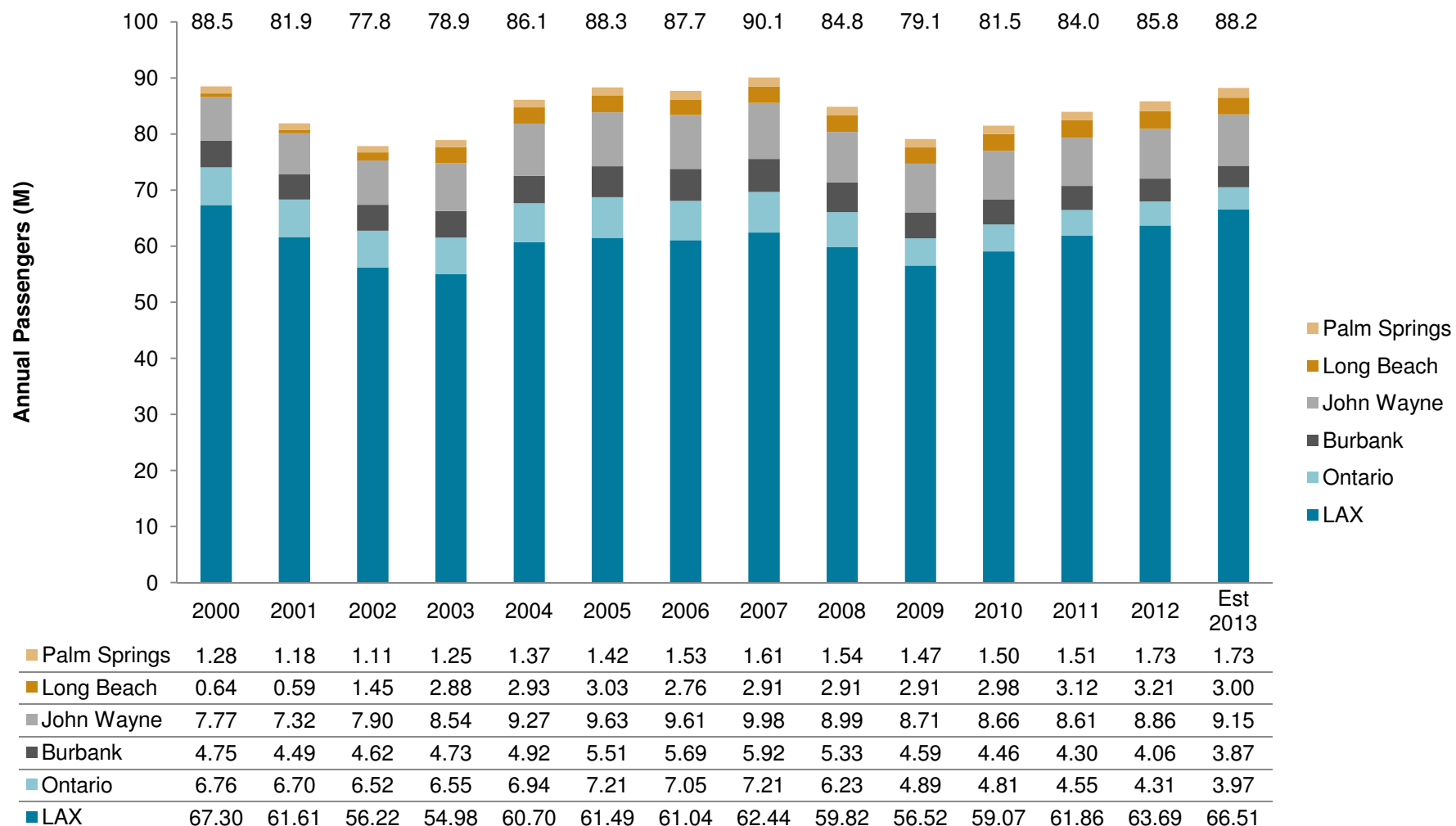
Sources: Southern California Airports

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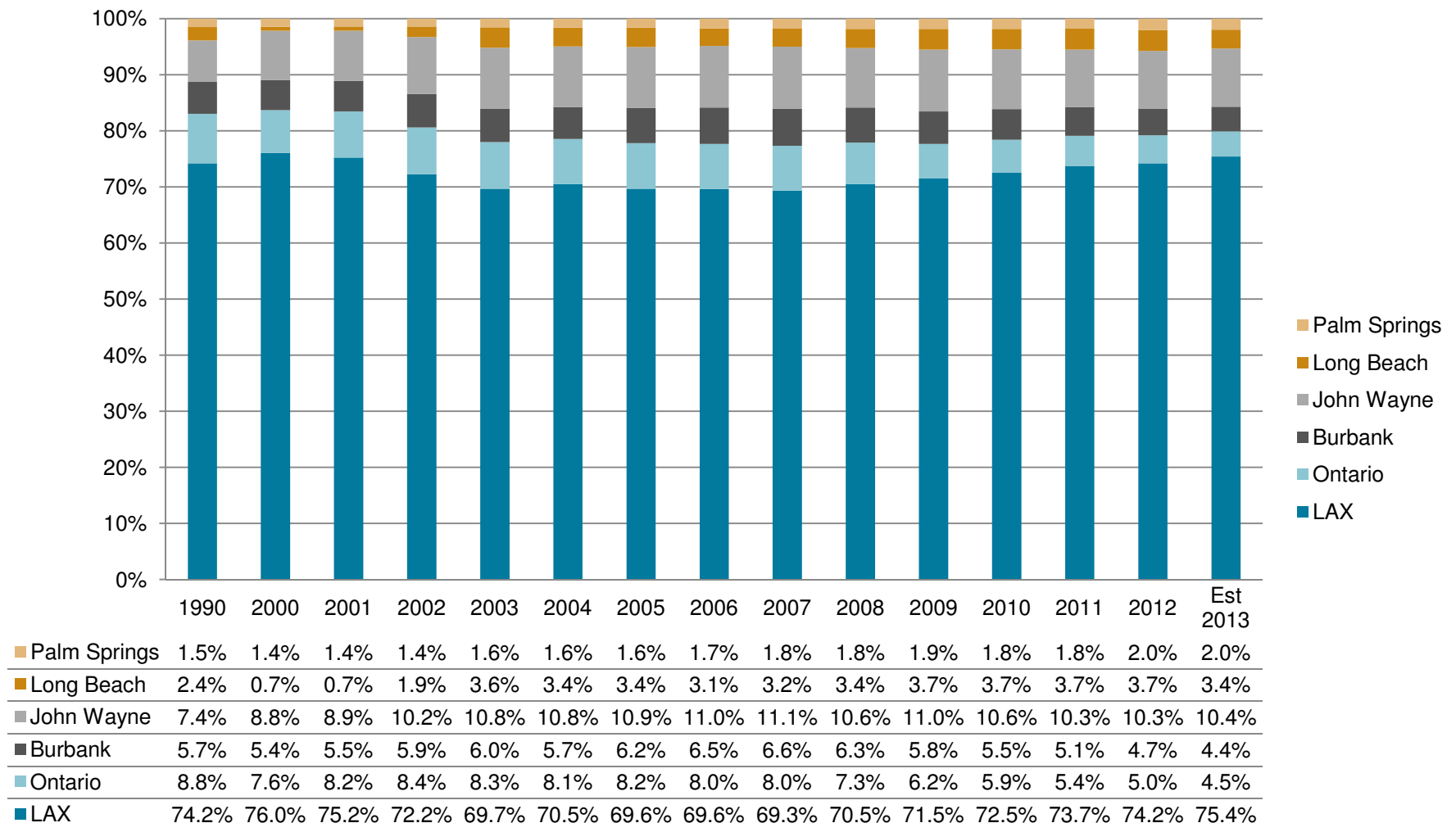
Southern California Airport Regionalization

Regional total passengers down 2% since 2007; ONT down 45%



Southern California Airport Regionalization

LAX's Market Share Has Steadily Increased since 2007, and Is Greater than in 1990

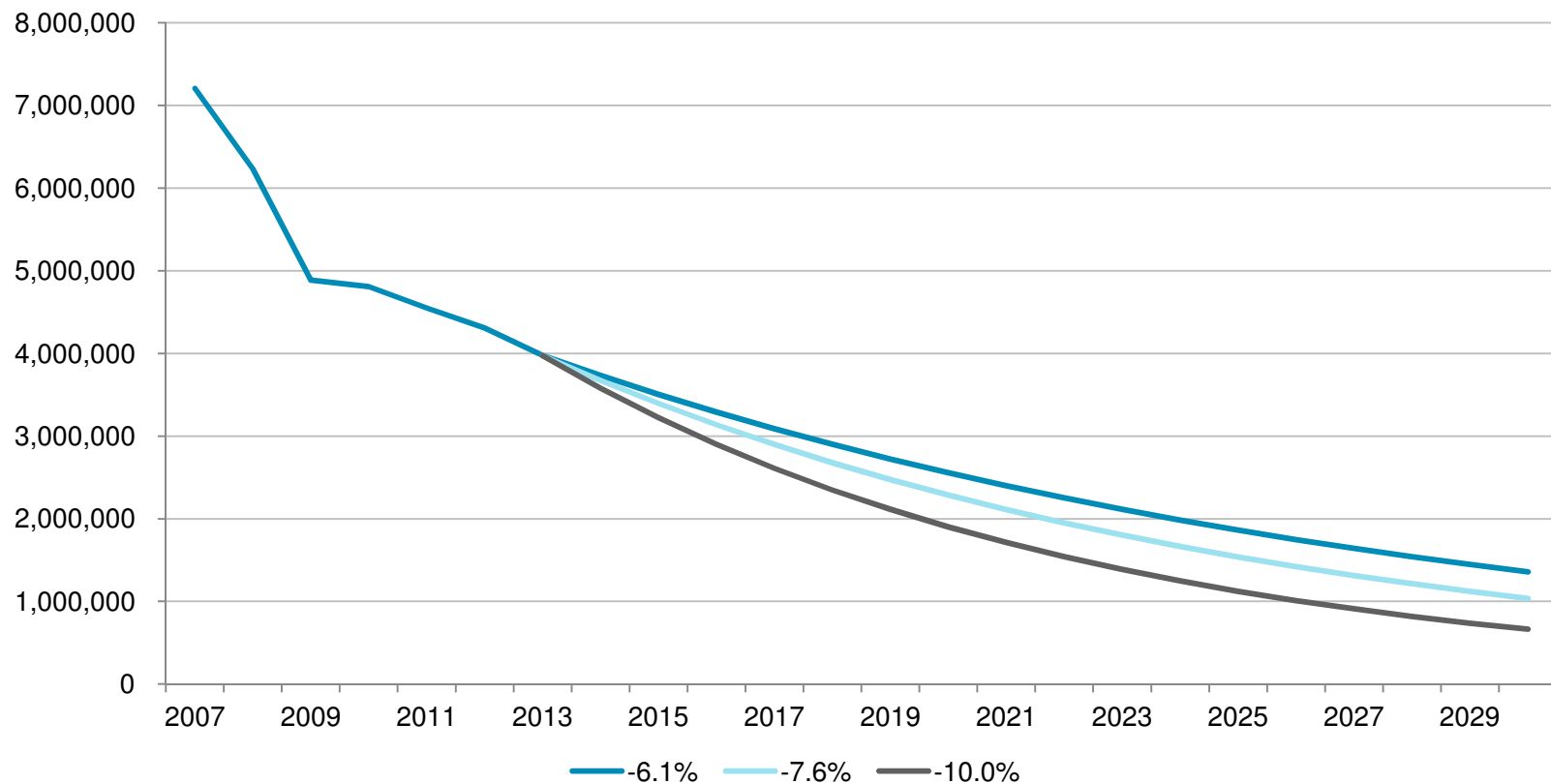


If Current Trends Continue...

- ONT will fall below 2 million passengers between 2020 and 2024
- Additional 8,000 jobs and \$430 million in regional activity will be lost

Actual and Projected ONT Passengers at Selected Rates of Decline

7.6% (projected 2013 decline), 6.1% (2010-2013 rate), 10%

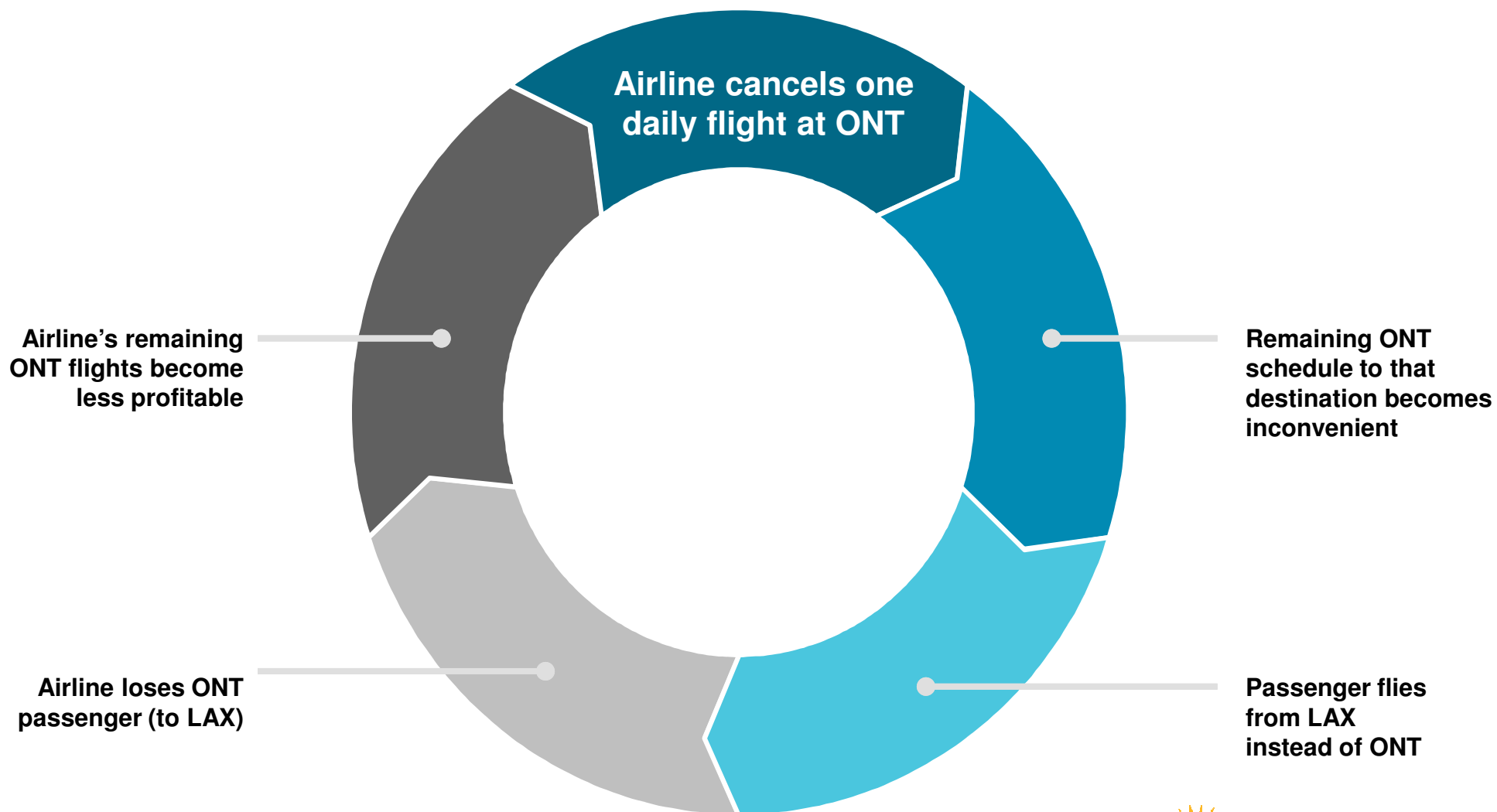


Source: Oliver Wyman analysis

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The Downward Spiral of Lower Activity and Higher CPE Is Continuing



ONT's Flight Schedule Is Increasingly Less Attractive to Business Travelers

Departures/Day in September		ONT			LAX		
Destination	Airline	2007	2013	Change	2007	2013	Change
Dallas/Fort Worth	American	4.9	3.8	-21%	16.9	17.0	1%
Portland	Alaska	4.9	2.6	-47%	6.0	5.0	-16%
Seattle/Tacoma	Alaska	4.0	2.9	-28%	13.0	11.3	-13%
New York Kennedy	JetBlue	1.0	0.0	-100%	0.0	4.9	
Atlanta	Delta	2.5	0.0	-100%	10.9	9.7	-11%
Salt Lake City	Delta	5.5	3.6	-34%	9.2	6.7	-28%
Denver	United	4.7	1.9	-61%	11.2	7.5	-33%
Houston	United	3.0	1.7	-42%	10.6	11.5	8%

Source: Planestats.com, based on Innovata Flight Schedules accessed on July 26, 2013

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ONT's High Operating Costs Are Not Declining Sufficiently to Keep Pace with Passenger Declines

Operating Costs Per Enplanement For Los Angeles Area Airports, FY2011

Airport	Operating Costs
Ontario	\$26.37
Palm Springs	\$19.51
Long Beach	\$18.37
Orange County	\$16.45
Burbank	\$15.43
San Diego	\$13.63

	Expenditures FY2011	Appropriated Budget FY2014	Change
Operating Expense	\$62,431,000	\$57,073,000	-8.6%
Passengers (M)	4.75	3.85	-18.9%
Increase in Operating Expense per Passenger			12.8%



Fixed costs at ONT exacerbate the problem

As a result, ONT operating costs per enplanement are likely to increase to reach \$30 per enplanement by FY2014

Source: Oliver Wyman analysis of FY2011 operating costs, based on financial information reported to the FAA by each airport on form 127.

Where Does This Leave ONT?

“CPE in 2013 will likely return to 2010 level of \$13 and increase to \$15 by 2018.”

“Further cost reduction is critical to avoid an increase in CPE which could result in service retrenchment.”

– Fitch Ratings Report for ONT, March 11, 2013

Where Does This Leave ONT?

“While LAWA has reduced the number of employees at LA/ONT and is exploring other operational efficiencies, insufficient cost reductions or increased revenues have been achieved thus far to bring its costs more in line with its peers, as of the most recently available data.”

“[T]he measures that have been taken, chiefly in the area of budget management, have not been enough to reduce the CPE to the levels that would help stimulate increased air service.

“Indeed, the airport’s operations and financial challenges are so severe that the Acacia team is of the belief that more significant and “game changing” solutions must be implemented on an expedited basis to turn around the downward spiral.”

—City of Los Angeles Consultant Report, September 2012

Report to City of Los Angeles Regarding Ontario International Airport Benchmarking of Current Airport Operations, William Blair, Axis Consulting, and Acacia Financial Group, September 21, 2012, p. 45.

Conclusion

1. Passenger declines far outpacing airport operating cost reductions
2. CPE more than double the \$5 CPE reasonable goal
3. Substantial resources needed to turn around downward spiral
4. Funds needed to:
 - sharply reduce ONT charges
 - aggressive marketing support
5. Without intervention:
 - struggle just to maintain current uncompetitive CPE
 - minimal airport marketing program